

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6873

BILL NUMBER: HB 1230

NOTE PREPARED: Jan 3, 2013

BILL AMENDED:

SUBJECT: Inheritance Tax.

FIRST AUTHOR: Rep. Wesco

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that the Inheritance Tax does not apply to property interests transferred by decedents whose deaths occur after December 31, 2012. It specifies that certain definitions apply after the elimination of the Inheritance Tax for purposes of the Indiana Estate Tax and the Indiana Generation-Skipping Transfer Tax. The bill also provides that a county is not entitled to an Inheritance Tax replacement amount after December 31, 2013.

Effective Date: January 1, 2013 (retroactive).

Summary of Net State Impact: The annual net fiscal impact to the state General Fund from Inheritance Tax changes proposed in the bill is summarized in the table below. Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2014.

Fiscal Year Impact	Inheritance Tax Revenue Loss	Savings in County Replacement Expenditures	Net Increase (Decrease)
FY 2014	(\$64.3 M)	\$0	(\$64.3 M)
FY 2015	(\$115.0 M)	(\$33,000)	(\$57.5 M)
FY 2016	(\$101.5 M)	(\$30,000)	(\$101.5 M)
FY 2017	(\$88.0 M)	(\$26,000)	(\$88.0 M)
FY 2018	(\$74.5 M)	(\$22,000)	(\$74.5 M)
FY 2019	(\$60.9 M)	(\$18,000)	(\$60.9 M)
FY 2020	(\$47.4 M)	(\$15,000)	(\$47.4 M)
FY 2021	(\$33.8 M)	(\$11,000)	(\$33.8 M)
FY 2022	(\$20.3 M)	(\$7,000)	(\$20.3 M)
FY 2023	(\$6.8 M)	(\$4,000)	(\$6.8 M)
FY 2024 and after	\$0	\$0	\$0

Explanation of State Expenditures: *Department of State Revenue:* There could be a savings to the state from a reduction in staff of the Inheritance Tax Section of the Department of State Revenue. The December 3, 2012, state staffing table indicates that the Inheritance Tax Division has 7 full-time employees with an annual salary of about \$268,000. Current law provides for a phaseout of the Inheritance Tax by CY 2022, which could also result in savings from a reduction in staff over time.

County Inheritance Tax Replacement Payments: The bill eliminates replacement payments paid from the state General Fund to counties based upon replacement payments that they received for any shortage of Inheritance Tax revenue in FY 2012. This change would begin with replacement payments that would be made in FY 2015. Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages.

Explanation of State Revenues: *Summary* - This bill eliminates the Inheritance Tax beginning with deaths that occur after December 31, 2012. Estimates are provided in the table below.

Fiscal Year Impact	Inheritance Tax Revenue Loss
FY 2014	(\$64.3 M)
FY 2015	(\$115.0 M)
FY 2016	(\$101.5 M)
FY 2017	(\$88.0 M)
FY 2018	(\$74.5 M)
FY 2019	(\$60.9 M)
FY 2020	(\$47.4 M)
FY 2021	(\$33.8 M)
FY 2022	(\$20.3 M)
FY 2023	(\$6.8 M)

FY 2024 and after	\$0
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Background Information - SEA 293-12 provided for a phaseout of the Inheritance Tax beginning with decedents whose deaths occur during CY 2013. The Inheritance Tax will no longer apply to property interests transferred by decedents whose deaths occur after December 31, 2021. The Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early discount).

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would reduce revenue to counties beginning in FY 2014. Estimates are provided in the table below. Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents.

Fiscal Year Impact	Local Share of Inheritance Tax Revenue Loss	Elimination of Replacement Payments	Net Increase (Decrease)
FY 2014	(\$5.5 M)	\$0	(\$5.5 M)
FY 2015	(\$9.9 M)	(\$33,000)	(\$5.0 M)
FY 2016	(\$8.8 M)	(\$30,000)	(\$8.8 M)
FY 2017	(\$7.6 M)	(\$26,000)	(\$7.6 M)
FY 2018	(\$6.4 M)	(\$22,000)	(\$6.4 M)
FY 2019	(\$5.3 M)	(\$18,000)	(\$5.3 M)
FY 2020	(\$4.1 M)	(\$15,000)	(\$4.1 M)
FY 2021	(\$2.9 M)	(\$11,000)	(\$2.9 M)
FY 2022	(\$1.8 M)	(\$7,000)	(\$1.8 M)
FY 2023	(\$0.6 M)	(\$4,000)	(\$0.6 M)
FY 2024 and after	\$0	\$0	\$0

This bill would eliminate replacement payments from the state General Fund beginning in FY 2015. Current law phases out these payments by FY 2024. The table below provides the schedule for the phaseout of county replacement payments under current law.

Fiscal Year Distributed	County Replacement Payment Phaseout
FY 2014	91% of the FY 2012 replacement payment amount
FY 2015	82% of the FY 2012 replacement payment amount
FY 2016	73% of the FY 2012 replacement payment amount
FY 2017	64% of the FY 2012 replacement payment amount
FY 2018	55% of the FY 2012 replacement payment amount
FY 2019	45% of the FY 2012 replacement payment amount
FY 2020	36% of the FY 2012 replacement payment amount
FY 2021	27% of the FY 2012 replacement payment amount

FY 2022	18% of the FY 2012 replacement payment amount
FY 2023	9% of the FY 2012 replacement payment amount
FY 2024	End of replacement payments

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: OFMA Inheritance Tax Database; Revenue Technical Committee, *State Revenue Forecast, Fiscal Year 2015*, December 17, 2012; Quarterly Inheritance Tax Reports, FY 1997- FY 2012.

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